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Congress of the United States
House of Representatives
109th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515–6315

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BY HAND

Honorable James Nussle
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Honorable John M. Spratt, Jr.
Ranking Democratic Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

RE: Budget Views and Estimates

Dear Chairman Nussle and Ranking Democratic Member Spratt:

The administration's FY 2006 SBA budget submission of $593 million is approximately 3 percent below last year's appropriated level of $610 million. While SBA's budget reduction appears to be consistent with the administration's overall cuts to non-defense, non-homeland security, discretionary spending, SBA's budget decline, when viewed over the last four years, reflects an alarming trend. During FY 2002, the first year the current administration was in office, $918 million in funds was provided to the SBA. When compared to the current budget submission for SBA, this represents a reduction of 35 percent in funding for the primary federal agency designed to assist small businesses.

The administration, SBA, and even our Republican colleagues assert that there is no need to be concerned by these sizable budget reductions. They argue that the SBA is emblematic of an agency that is doing "more with less." However, it is our opinion that the SBA is not doing "more with less," but instead reeling from the effects of a budget that has been slashed by nearly half in the last four years.

To work within the framework of these dramatic budget cuts, the SBA has substantially altered its operating model to the detriment of small businesses. First, the SBA has greatly reduced the number of employees in SBA District offices. By doing so, the SBA is less able to serve local entrepreneurs and assist program partners. The reduction of District-based staff has had a profound impact on the 7(a) and 504 program, resulting in fewer lenders and an inefficient processes.

Part of the reason for the decline in lenders is the elimination of District staff that work with new lenders, educate existing lenders, and serve as local advisors should technical questions arise. The SBA also has made the decision to eliminate its portfolio management staff, many of which were responsible for working with 504 program lenders in the default and liquidation process. The result of the elimination of this specialized staff has impaired 504 program lenders' ability to recover losses on defaulted loans, which ultimately increases the cost of operating this program. This continual reduction in SBA District staffing – as seen in the 7(a) and 504 programs – is undermining the public-private partnership that SBA depends on to delivers it services to small businesses.

Second, the SBA has unnecessarily impaired the growth or eliminated completely programs that yield net positive economic benefits. During the past four years, the SBA has essentially shutdown the BusinessLINC program and the SBIR FAST and Rural Outreach programs, while halting the growth of the New Markets Venture Capital program, the Women's Business Center program, and the Small Business Development Center program. Doing so has resulted in a decline of the United States entrepreneurial framework, which has the practical effect of reducing the level of economic activity in our communities.

Many of these programs provide a net return to the federal government in terms of increased tax revenue, lower unemployment rates, and lower welfare assistance. Without these programs it will be difficult, if not impossible, to create new pockets of economic growth in our country.

To say that the substantial decline in SBA's budget over the last four years has permitted the agency to accomplish "more with less" is a farce. In reality, the cuts to SBA's budget have resulted in an agency that supports fewer programs than ever before and, for those programs that it does continue administer, does so in a manner that is inadequate. Our nation's entrepreneurs need an SBA that has the resources necessary to meet their needs, not an SBA that is deficient of the funding needed to carryout its mission.

Even though such pressing needs exist, the House Committee on Small Business did not meet this year to consider and markup the Committee's Views and Estimates on the administration's FY 2006 budget submission for the Small Business Administration (SBA). By not holding this meeting, Democratic Members of the Committee were not given an opportunity to openly discuss and debate elements of the budget submission for SBA. To make our views known, we are submitting separate views and estimates on the budget for Small Business Administration (SBA).

ACCESS TO CAPITAL

7(a) Loan Program

For FY 2006, the administration has requested no budget authority for the 7(a) program as it did in FY 2005, proposing to continue to fund the program through fees that SBA's charges small business borrowers and their lenders. As a result, small businesses and lenders are being forced to pay the full costs of the program. For smaller loans less than $150,000, fees are doubled from 1 percent to 2 percent, which translates into nearly $1,500 more in upfront closing costs for entrepreneurs. For a loan of $700,000, this would raise the fees by approximately $3,000. As a result of these fee increases, many small businesses will be unable to access the capital they need to hire new employees or expand their operations.

These actions – most notably the recently imposed higher fees on business owners – have reduced the demand for the 7(a) program. For the last quarter of FY 2004, the program provided $3.94 billion in 7(a) loans. Since the fees were raised on small businesses and lenders – loan volume has decreased to only $3.56 billion for the most recent quarter, a decline of nearly half of a billion dollars.

Unfortunately, the administration is proposing raise fees further in FY 2006, increasing the fee it charges lenders to use the program from 0.50 percent to 0.545 percent. This will increase the cost of 7(a) loans to lenders, forcing many to drop out of the program due to its high expenses. As a result, entrepreneurs will be less able to access the affordable capital they need to start a business or expand an existing firm.

At the center of the administration's proposal is its desire to maintain a zero subsidy rate, which serves only to destabilize the program. As recently experienced in the administration's termination of the Small Business Investment Company (SBIC) Participating Securities (PS) program, a zero subsidy rate presents a barrier to the prudent management of government credit programs. In the case of the shutdown of the SBIC PS program, which may foreshadow a crisis with the 7(a) program, it is our nation's entrepreneurs that will suffer from the reduced points of entry to our capital markets.

Claims of growth in the 7(a) program are based solely on the increased use of SBA's reduced guarantee program by a few large lenders. The SBA continues to increase its use of this reduced guarantee initiative – the SBA Express program, which provides a lower guarantee than the regular 7(a) program. SBA Express, which constituted less than 5 percent of the loan volume in FY 2000, now accounts for more than 60 percent of 7(a) loans and over 20 percent of lending volume.

Changes to the program have resulted in loan making becoming concentrated in fewer and fewer lenders, as 0.2 percent of the program's lenders are responsible for making nearly 70 percent of the 7(a) programs loans. The SBA Express program should be a component of SBA's lending strategy, not its focal point and efforts should be made to increase loans made through the regular 7(a) program.

The SBA is proposing a loan level of $16.5 billion for the 7(a) program, which represents a 0.5 billion increase over the FY 2005 loan level of $16 billion. When the program is operating without an appropriation, as the administration proposes, 7(a) program level should be limited only by the program's authorization, not by the administration's program level request.

Finally, the substantial downward credit subsidy rate reestimate for FY 2004 is concerning, given the occurrence of substantial downward reestimates in the past. In 2001, the General Accounting Office estimated that SBA overestimated the cost of the program by nearly $1 billion in the previous ten-year period. Substantial downward reestimates call into question SBA's ability to properly estimate and manage the costs of the 7(a) program and increases the likelihood that small business owners and their lenders were again overcharged for their participation in the program.

Secondary Market Program

Through the secondary market program, lenders are able to sell the guaranteed portion of SBA guaranteed loans to investors and thereby improve their liquidity and increase their yield on the un-guaranteed portion of SBA loans. This market was created to increase the attractiveness of small business lending within the financial services community.

The SBA facilitates the secondary market program by transferring loan payments, through a third-party fiduciary agent, to investors. Due to prepayments and defaults on loans, the SBA may incur a liability in excess of fees it collects from secondary market participants. The secondary market program is subject to the Federal Credit Reform Act and, as a result, requires a subsidy rate and, if necessary an appropriation.

The budget proposes a zero subsidy rate for the secondary market program and, as a result, does not require an appropriation. However, the SBA has included in its legislative package a provision that would permit SBA to levy a fee on lenders that use the secondary market program. Committee Democrats are opposed to giving SBA this authority, as any new fee should be subject to congressional review and action before it is imposed on 7(a) program participants.

504 Certified Development Company Program

The administration proposes a $5.5 billion program level for the 504 program in FY 2006, an increase of $0.5 billion from the FY 2005 program level. This program level may be insufficient and may cause the program to shutdown, placing many small business owners' financing in jeopardy.

H.R. 4818, the Consolidated Appropriations Act for FY 2005, made substantial changes to the 504 program, which will allow 504 lenders to provide larger financing packages to small firms. These changes included increasing the total amount of financing available through this program from $2.5 million to $3.75 million for general financing purposes and the creation of a new financing alternative for up to $10 million for small manufacturers. As a result, small businesses will be better able to meet their capital needs enabling them to modernize and expand their operations.

While these changes are helpful to small businesses seeking larger amounts of capital, the administration did not factor in the need to raise the cap on the program's activity. The administration imposes this cap to constrain the growth of the program, but failed to recognize the impact of the recent program changes. As a result, the increased loan sizes now available through the 504 program may exhaust the program level before the end of the fiscal year. If this happens, the program will shutdown. The cap, which limits 504 lending to $5 billion in FY 2005, is set too low to fully accommodate the increased loan sizes in the 504 program. The cap proposed for FY 2006 of $5.5 billion is also set too low – as industry estimates put demand close to $7 billion. If the cap is exceeded and a shutdown occurs, the recent efforts to strengthen the program would be undone.

7(m) Microloan Program

Committee Democrats strongly oppose the administration's proposal to terminate the Microloan program in FY 2006. Last year, the administration also proposed to eliminate this program, but Congress acted to restore funding. As a result, the program will provide $20 million in loans and $15 million in technical assistance during FY 2005. In attempting to abolish the program, the administration wrongly contends that very small loans are more widely available now than they were a decade ago when the SBA began the Microloan program.

While financial institutions have been actively lending loan amounts below $100,000, they have not been lending to those types of businesses that would typically access funds through the Microloan program. For instance, lenders have been participating in programs like the Community Express – a program targeted at providing small loans to entrepreneurs in low-income areas. However, bank-delivered programs – like Community Express – are often not located in the communities that need the Microloan program and tend to cater to more established entrepreneurs with higher credit ratings. While some lenders are greatly expanding into this area – which is a positive step forward – they will never be able to supplement the network of the nearly 300 special purpose Microlenders nationwide, which make loans to borrowers with lower credit scores.

The typical Microloan borrower would not qualify for a 7(a) loan due to any number of reasons including an imperfect credit history, lack of collateral, or lack of business training. Microintermediaries work with potential borrowers to fully develop their business proposals, greatly increasing the likelihood of an entrepreneur's success. Banks often do not service such borrowers, leaving many would-be entrepreneurs without any means, other than high-priced credit cards, to secure capital.

The administration also contends that programs other than the 7(a) program offer duplicative services. The Microloan program, however is the only program that combines funding and technical assistance – an important combination for many entrepreneurs looking to start a business. In addition, the administration terminates, reduces funding, or increases the costs for entrepreneurs for nearly all of the programs aimed at the segment of business owners that the Microloan program was developed to serve. This includes an elimination of support for PRIME and the New Markets Venture Capital program.

The Microloan program fills an important need in the capital markets – small loans to startups. During the past few years, many Americans weathered the economic downturn by starting their own business – many relying on the Microloan program for funds and assistance. By cutting this program, the administration will limit the potential for many individuals to become self-sufficient and will prevent communities from adding the new jobs they need to grow.

Small Business Investment Company Program

The Small Business Investment Company (SBIC) program was created to fill the gap in capital markets for long-term financing of smaller growth-oriented businesses. SBICs, which are licensed and regulated by the SBA, are privately-owned and managed investment firms that make their own investment decisions. SBICs use their own funds, plus funds from borrowing with an SBA guaranty or leverage, to make venture capital investments in small businesses.

This program serves one of the most important missions of the SBA – that of helping qualified small enterprises secure equity capital. The SBIC program accomplishes this in two ways. First, the program facilitates the formation of privately-owned and operated investment companies. Second, it supplements investment companies' private capital with funds made available through SBA guarantees. The SBA provides leverage to investment firms either through the Debentures program – suited for later-stage investment with debt features, and the Participating Securities (PS) program – suited for pure equity investment in early-stage businesses.

The administration's decision to terminate the SBIC Participating Securities program will especially hinder the availability of venture capital to early stage companies. While the FY 2006 budget includes a $3.0 billion program level for the SBIC debenture program, a reduction from its FY 2005 level of $3.25 billion, it does not request a program level for the SBIC participating securities program.

The Administration had requested a $4.0 billion program level for the SBIC Participating Securities for FY 2005, so long as the program could be restructured in a way to produce a zero subsidy rate. Unfortunately, this did not occur and the Administration never came to agreement last year as to how that restructuring should be accomplished. The elimination of the SBIC Participating Securities in the FY 2006 budget indicates that the Administration plans to terminate the SBIC Participating Securities program all together – a program responsible for more than half of the SBA's equity investment.

Notably, the SBIC program was the first program that the SBA requested a zero subsidy rate for – stating that the agency would be able to manage the program for the foreseeable future. However, as the recent shutdown of the SBIC Participating Securities program reflects and the FY 2006 budget confirms, this has not been the case. Due to the SBA's improper decision to operate the program at a zero subsidy rate, it will be unable to license new SBIC Participating Securities firms until further notice. In addition, existing SBICs may be unable to fully draw down the leverage promised by SBA when they were originally licensed. Regrettably, this unfortunate outcome is due to the SBA's decision to attempt to operate the program at a zero subsidy rate, which clearly is unworkable.

Finally, there is great concern that the termination of the SBIC Participating Securities program will also make it more difficult for minority-owned firms to access venture capital. Minority-owned firms already face great obstacles in accessing venture capital, receiving only 2 percent of venture capital investment. In 2004, 11 percent of the total number of SBIC program financings totaling $148 million went to minority-owned firms. An erosion in the SBIC Participating Securities program, which is responsible for nearly half of the SBIC program's investment, will likely lead to further decline in the investment in minority-owned firms.

New Markets Venture Capital Program

The New Markets Venture Capital Company (NMVC) program is designed to spur investment in businesses located in low-income areas by bringing together venture capital and technical assistance. NMVC participating companies receive capital from the government to match private capital raised. Each NMVC company is required to invest principally in small businesses located in low-and moderate-income areas. Although the program has had broad bi-partisan support, the Bush Administration refuses to support it. To date, only six NMVC companies are participating in the program and the Administration has not acted to bring more companies into the program.

Committee Democrats oppose the administration's lack of funding for this important program. As a result of the administration's lack of support, SBA will be unable to bring new NMVC companies into the program, limiting the availability of equity financing to entrepreneurs located in low-income areas.

Disaster Loan Program

The FY 2006 original funding request for the disaster loan program is for $83 million in budget authority. SBA estimates that the program will provide a program level of $810 million in FY 2006, the five-year historical average level.

Many small businesses adversely affected by the events of 9/11 received a loan through the Disaster Loan Program. Some of these businesses were eligible for a two-year repayment deferral so that they could fully recover, rebuild, and rehire employees. Given the unforeseen challenges of recovering from 9/11, however, many of these businesses have not regained their full financial strength and remain vulnerable to existing economic forces. As a result, such businesses should be considered for an extension of their repayment deferral or, in certain circumstance, outright forgiveness.

PRIME

The Program for Investment in Microentrepreneurs (PRIME) program allows SBA to award grants to non-profit microenterprise development organizations, programs, collaborative or intermediaries. These funds can be used by an organization to provide much-needed training and technical assistance to low-income and disadvantaged entrepreneurs interested in starting or expanding their own businesses. They also can be used to engage in capacity building activities targeted to microenterprise development organizations that serve low-income and disadvantaged entrepreneurs. Even though Congress appropriated $5 million for the program, the administration eliminates PRIME in its FY 2006 budget submission. Committee Democrats oppose the administration's elimination of funding for PRIME.

In not requesting funds for FY 2006, the administration incorrectly believes that this program duplicates current technical assistance programs like the Microloan program. PRIME is an important program because it is not tied to a loan, as is the Microloan program. Regardless of the differences between the programs, the administration proposes to terminate the Microloan program as well. Such as move calls into question the administration's notion that such programs are duplicative and instead is evidence of the administration's policy decision to not provide services to low-income entrepreneurs.

In solely providing entrepreneurial development training programs, PRIME often is able to assist low-income small business owners manage their capital needs without taking out unnecessary loans. This function – while often overlooked – is essential to the growth of entrepreneurs in low-income communities.

GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT

HUBZone Program

The HUBZone program was originally created to replace the SBA's 8(a) program as a "place-based" rather than "race-based" procurement program. Thus far, it has produced questionable results. There continues to be concern as to whether this program is achieving its intended goal of community development through the award of federal contracts. In fact, according to the SBA's own Inspector General's Office, "there is little assurance that the program will provide increased employment, investment and economic development for depressed areas." The Inspector General also found the program to be "vulnerable to contracting fraud." At no point, since the release of the IG's report in 2003, has the SBA modified its HUBZone program funding request to address the issues raised by the IG.

Despite the warnings raised by the SBA's IG, the SBA was in agreement with recent changes to expand the HUBZone program. As a result of these program modifications, the number of HUBZone qualified counties as increased from 1,200 to at least 1,400 or nearly 45 percent of counties in the U.S. Further, 11,600 census tracts are now HUBZones compared to 7,000 before the 2000 census. The expansion of the HUBZone program has created a situation where more and more companies – located in nearly one-half of the counties in the country – are eligible for government contracting priorities, without having to live up to the spirit of the law. Businesses located in those areas of the country that are truly falling behind economically, will be competing with companies in more affluent areas that will have access to greater resources which enhance their ability to be successful in competing for government contracts.

While the SBA has traditionally requested $2 million for administration of the HUBZone program, in the FY 2006 budget request – as in FY 2005 – the SBA did not request a separate line item appropriation. Rather, the SBA proposes that the HUBZone program is included in the request for the overall Government Contracting and Business Development programs, with an added expenditure of $964,000 – more than $1 million less than historically requested. According to the figures provided by the agency in its budget request, the HUBZone program has consistently cost the agency an average of more than $7 million to administer over the past four fiscal years.

The SBA's costs to run the HUBZone program are more than three times what the SBA has previously requested for the HUBZone program. Even with the SBA making up the costs of running this program out of the agency's general Salaries and Expenses account, the HUBZone program is, according to the SBA's own Inspector General's Office, "vulnerable to contracting fraud."

Without adequate resources devoted to this program, it will remain unable to achieve its primary goal of reviving economically depressed communities. However, it is important to ensure that the program does not increase expenditures to the detriment of other Government Contracting and Business Development programs. This concern will be magnified as the SBA blends the HUBZone program funding request with the general Government Contracting and Business Development program funding request. This holds the potential for decreasing funding for other Government Contracting and Business Development programs. Combining HUBZone program funding with other programs will result in less clarity in the budget process and should not be allowed.

8(a) Program

The SBA's 8(a) program, named after Section 8(a) of the Small Business Act, is the primary program through which minority-owned businesses enter the federal marketplace. Despite substantial procurement reform legislation enacted in the mid-1990s, the 8(a) program has not been significantly overhauled for more than 15 years. As a result, the program has moved away from its core mission of minority business development.

As a result of the SBA's inaction to keep the 8(a) program up-to-date and an attractive procurement option, contract consolidations have greatly diminished the number of smaller contracts that are so important to the development of new government suppliers. Additionally, of concern, is the fact that loopholes are being exploited to allow very large companies to take advantage of 8(a) status allowing them to receive multi-billion dollar contracts. This inflates the overall dollars going to 8(a) companies, implying that all 8(a) participant firms are benefiting from increased government contracting opportunities, when fewer than 30 percent of companies in the program actually receive contracts.

The SBA has implemented the electronic 8(a) program application. Now, the SBA is intent on outsourcing application processing. Thus far, the Committee is not convinced that this is in the best interests of the program. The SBA has yet to provide the Committee with performance metrics to ensure that only eligible firms are certified. As such, any efforts to develop and implement an electronic 8(a) application are objectionable. The focus of the agency continues to be on getting more companies into the 8(a) program, rather than providing assistance to the businesses already approved. In fact, the SBA projects having a total of more than 45,000 companies participating in the 8(a) program by the end of FY 2007 – an increase of greater than 500 percent.

Historically, the 8(a) program salaries and expenses – the only program budgetary item requested – account for 47 percent of the S&E for SBA's government contracting programs. This percentage has been estimated as the SBA has refused to provide more detailed information either in the initial agency budget briefing, in pre-hearing questions, or during the budget hearing. The program funds available under the president's request are inadequate to address continuing concerns with the 8(a) program's effective operation – especially given the dramatic growth the administration projects for the program. The agency should be provided with adequate resources to provide business development and contracting assistance to existing 8(a) program participants. The current budget request does not sufficiently allow for these expenses.

BusinessLINC

Established as part of the New Markets Initiative, BusinessLINC provides seed funding for private sector efforts to establish mentor-protégé relationships between small and large businesses. Small businesses in low-income areas are the ideal candidates for mentoring provided through BusinessLINC funding. Despite numerous successes of this initiative, the current administration has never requested funding for BusinessLINC.

Last summer, the President announced a partnership with the National Urban League to encourage minority entrepreneurship and business development, focusing on historically neglected and underserved areas. While specifically mentioned in the unveiling of this initiative, the BusinessLINC program had received no funding in the 2006 budget request. Without a reauthorization that the administration has also not proposed, the program will expire September 30, 2005.

Termination of funding for BusinessLINC will affect those businesses in areas of the country that have not yet achieved parity with the rest of the nation – areas that, in an economic downturn are the first to experience it and the last to recover from it. The administration has claimed that BusinessLINC is redundant and yet the program was highlighted by the President in July of 2004 as a tool to foster economic development in low-income areas. Given that this program has proven results, it should not only be reauthorized, it should be funded at its authorization level of $6.7 million.

Women's Procurement Program

P.L. 106-554, signed by the president on December 21, 2000, established a women's procurement program. This program first required that a study be undertaken to determine what industries are under-represented by women-owned businesses. Concurrent with the completion of the study, the SBA was required to develop regulations under which federal contracting officers would be allowed to restrict competition to only women-owned businesses for contracts in under-represented industries.

After an incomplete attempt to implement the program with regulations being submitted to the OMB in November of 2001, the SBA ultimately withdrew the regulations leaving the program stalled. It is likely without precedent that, not only has the SBA refused to implement a statute more than two years after enactment, but also there is not one mention of this program in the SBA's budget request. Nor has their been for the past three budget cycles.

The refusal of the SBA to implement this program is indicative of the administration's lack of support for attempts to level the playing field for other individuals who have historically had a lack of opportunities. At no point in time, has the federal government achieved the women's procurement goal since the creation of this goal in 1995. The administration's failure to achieve the 5 percent women-owned business contracting goal has cost these firms billions of dollars in lost federal contract opportunities.

This is concerning in that the SBA's failure to request additional resources will remain an obstacle in getting this program implemented. The administration should request whatever funds are necessary to implement this program without delay. Further, the Committee expects that the administration will have this important program up and running no later than the end of the current fiscal year.

7(j) Program

While the administration has acknowledged the importance of the 7(j) management and technical assistance program by designating it as a "core" program, it has requested $1.6 million less than its budget request for FY 2004. The requested funding level of $2 million is not adequate to provide the necessary management and technical assistance to businesses that are participants in the SBA's 8(a) program, let alone to other 7(j) eligible businesses.

Historically, the 7(j) program has been the primary vehicle for management and technical assistance for participants in the 8(a) program. Business development is an essential part of the 8(a) program. As most formal business development in the 8(a) program comes from 7(j)-funded projects, this is concerning in that with such a minimal funding level, the SBA is forced to overly leverage, and thereby dilute, assistance. Unfortunately, because of the under-funding of the 7(j) program, most 8(a) program participants do not receive any assistance funded through this valuable initiative.

By increasing this funding, at a minimum, to the $5 million requested in FY 2001, businesses would receive more appropriate, relevant, and ongoing business development training. Additionally, with a more adequate funding level, most if not all current 8(a) participants would be able to receive important business development.

The administration has been focused for the last four budget cycles, on getting more companies into the 8(a) program. Without additional 7(j) funding, these newer companies will not have access to the necessary management and technical assistance to grow successful businesses. Therefore, access to important federal contracts will be limited.

Lastly, the administration has proposed deleting 7(j) funding as a separate line item and incorporating it into funding for all Government Contracting and Business Development programs. Moving a budget request from line item status to the general fund eliminate protections this line item has from being siphoned off to fund other administration priorities. Removing transparency from the budget process should not be allowed.

Business Matchmaking

The administration has focused for the past three budget cycles on its "business matchmaking" initiative. In the FY 2006 request, $600,000 has been included for business matchmaking activities. Thus far, according to figures provided by the administration, $1,680,000 has been spent thus far on this project – more than half of which was provided to a large business co-sponsor.

The result has been that out of 9,100 companies attending these events, 49 got contracts – for a success rate of .5 percent. This averages to a cost of about $30,000 per business. This doesn't include SBA's staff time, marketing, or travel. Business matchmaking is by far the most expensive of the SBA's programs. The Committee finds that business matchmaking is not worth the taxpayer investment and additional funding should not be provided. Further, the Committee has concerns that 7(j) program funding used to support this effort is a questionable use of resources, in that non-7(j) eligible companies could benefit.

Resources for Government Contracting

For the past four fiscal years, the federal government has failed to achieve its 23 percent statutory small business goal. While the SBA claimed the goal was exceeded for FY 2003, a subsequent report by the SBA's own Office of Advocacy raised questions that this was likely overstated.

Federal contracts are becoming larger and larger, and the ability of small businesses to access these contracts is diminishing. With the Chairman and Ranking Member both continuing their pledge to focus on contract bundling – a significant issue to small businesses that work with the federal government – the role of the Procurement Center Representative (PCR) is crucial. There are currently fewer than 40 PCRs – not even one per state – and certainly not enough to perform increased enforcement duties on contract consolidations. In fact, many of these PCRs perform double-duty as CMRs. The administration has launched an effort to increase enforcement for small business procurement, but the fact that the administration proposes no additional resources dooms this effort to failure. This concern was echoed by the administration's own Administrator of the Office of Federal Procurement Policy. While the SBA has committed to increasing the number of PCRs to 56 in this budge request, this is far from an adequate workforce to ensure sufficient coverage of major buying activities.

Lastly, as federal contracts are becoming larger as a result of contract consolidations, the role of small businesses is more often that of subcontractor rather than prime contractor. As such, the SBA's current workforce of 4 full-time CMRs – the employees of the SBA tasked with the responsibility of ensuring prime contractor compliance with subcontracting plans – becomes more important. Four employees nationwide can in no way provide the proper assurance that prime contractors are complying with small firm subcontracting requirements. No mention of this critical function was made in the SBA's FY 2006 budget request.

Overall, there is a substantive lack of resources provided to ensure that small businesses have access to government contracts. This speaks volumes regarding the level of commitment by the administration to address this problem that affects so many small businesses seeking to contract with their government.

Office of Technology

The Office of Technology administers the Small Business Innovation Research (SBIR) program and the Small Business Technology Transfer (STTR) program. The SBIR and STTR programs encourage the participation of small business research and development firms in federal research efforts through the awarding of agency research to either small firms alone or small businesses in partnership with research institutions. Despite the success of the SBIR and STTR programs, one of the most consistent concerns expressed in GAO reports is the concentration of awards in few states. Congress has addressed this concern with the Federal and State Technology (FAST) Partnership program, and the Rural Outreach program.

The administration has historically argued that these two programs – FAST and Rural Outreach – can be accomplished through other SBA programs, e.g., SCORE and the SBDCs. When establishing these two programs, Congress found these alternatives to be insufficient for achieving the goals of increasing SBIR and STTR awards in rural areas and to ensure that awards were not overly concentrated. While both SCORE and the SBDCs provide valuable assistance to their client bases, in developing the FAST and Rural Outreach programs, the Committee sought a more technical focus and specific expertise in SBIR and STTR. Now the SBA contends that these other options are adequate. Not only have no changes been made to alternative programs to ensure that they can achieve the objectives if the FAST program and the Rural Outreach program are eliminated, the SBA has level-funded its resource partners for the past several years.

The SBA's historic requests for these Congressionally mandated programs has been barely one-third of the authorization available. Further, in a recent report, the agency's Inspector General highlighted that the SBA had not provide sufficient measurable outcomes for FAST grant recipients, nor has the agency yet to receive performance reports from several grant recipients. Any failure of the FAST program and the Rural Outreach program has more to do with the inability of the SBA to implement the programs adequately, than any inherent shortcomings of the programs. It is particularly concerning that these programs – designed to correct flaws in the SBIR and STTR programs – have not been administered properly by the agency. The agency's failure to address the most consistent criticisms of the SBIR and STTR programs calls into question the agency's commitment to ensuring the success of the SBIR and STTR programs.

The FAST program should be funded at its authorized level of $10 million. The Rural Outreach program should be funded at its authorized level of $2 million. These funding levels will ensure these programs achieve their Congressional intent.

ENTREPRENEURIAL DEVELOPMENT

The FY 2006 SBA Budget provides for cuts to virtually all SBA entrepreneurial programs and proposes elimination a number of successful programs that have served to complement the services of what the SBA has deemed its "core" programs of Small Business Development Centers, Women's Business Centers and SBA district offices. These programs designated for elimination that have a particularly significant role in providing entrepreneurial assistance include the 7(j) Technical Assistance, PRIME and MicroLoan program. The SBA has rationalized these cuts in its initiative to consolidate programs by avoiding overlap or repetitive services.

Small Business Development Centers

The Small Business Development Center (SBDC) Network is the SBA's largest management and technical assistance program. SBDC's serve more clients than all other SBA programs, credit and non-credit, combined. The funding level requested of $88 million is $1 million less than last year's appropriated budget and it is woefully inadequate.

The administration has consistently requested amounts below the authorized level of funding. Despite claiming the numerous successes of the SBDC program, the SBA has again requested flat funding for the fourth straight year. This flat funding when accounted for inflation, accounts for a ten percent overall cut in real dollar program levels over that period of time. It is recommend that there be an SBDC appropriation of $125 million would allow the network to assist its clients in generating over 100,000 new full-time jobs, and increase federal revenues by nearly $270 million and state revenues by nearly $400 million.

In light of the cuts to other technical assistance programs including PRIME, MicroLoan, and Women's Business Centers, this program is vitally important considering that Congress' focus on what federal resources will be directed to assist and support the small business sector of the economy. To keep these programs successful running and meet the increasing demands of small business owners, the committee requests funding closer to the authorized levels for operation.

Women's Business Centers

It is clear that the administration's FY 2006 budget will harm the SBA's Women's Business Center program. Women's Business Centers are going to see an increase in demands for its services because of the "core program" initiative, but there will be no additional funding. For FY 2006, the president has requested only $12 million for Women's Business Centers, a $500,000 cut from last year's appropriation.

The majority view that funding is adequate is shortsighted. The request of only $12 million will mean that centers will be cut. Fully funding the program at $14.5 million is appropriate and will allow the program to reach out to more women entrepreneurs. If the program is not fully funded, it creates many problems from sustainability grant centers and reduces the ability of SBA to open new centers. Centers that are in the sustainability grant stage are competing with underserved areas that want to receive new centers. To prevent this, additional funds will be necessary not only to keep active centers running, but also to create new ones in underserved areas. The system must not place competition between those areas that have a center and those that do not. An approach must be created that balances the need to address the diversity issue, as well as the need to allow existing centers to re-compete.

Service Corps of Retired Executives

The Bush administration has consistently submitted a budget request for the Service Corps of Retired Executives (SCORE) program well below the authorized level. In FY 2006, the administration has once again requested only $5 million despite recent reports by the OMB that the program has successfully brought together volunteers with entrepreneurs and the increase in demands on services due to the non-core program cuts.

Funding for the SCORE program is important in order for the program to improve its efforts to assist small businesses, especially women- and minority-owned businesses. In light of the FY 2006 budget cuts to BusinessLINC, MicroLoan, PRIME, SBDCs and WBCs, the SCORE program will have an increasing role in helping these populations which have been ignored by the administration's budget request.

Native American Outreach

The administration has again rescinded any request for line item funding for the Native American Outreach Program. Despite obvious support for the program, the administration has elected to cut yet another program designed to assist minority populations. The program does not serve duplicative services as the SBDC, as the administration contends, but provides important funding to a segment of our population that is often overlooked. Members of the Committee and Congress have continually expressed an intent to fund the Native American Outreach program by providing for funding in each of the last three years. However, this broad interest has not been recognized by the administration's FY 2006 budget.

Paul Coverdell Drug Free Workplace Program

The *Drug-Free Workplace Act* (1998) established a Drug-Free Workplace Demonstration Program. This initiative has had ample time to implement an effective program, but the results suggest that it has not been successful. Funding for this program should be questioned in light of other budget cuts. This program has not shown an overall impact on reducing workplace drug use in small businesses. The fact that the administration has requested $1 million for a program that has such minimal impact, but cut programs that have a proven track record of helping small businesses, suggests misguided priorities.

National Women's Business Council

The president's FY 2006 budget request for the Women's Business Council is $750,000. This is the same funding level from FY 2005 which was below the authorized level of $1 million. The National Women's Business Council is a bipartisan federal advisory council that was established by Congress in 1988. It serves as an independent advisor to the president, Congress and the Interagency Committee on Women's Business Enterprise about issues important to women business owners.

The authorized level of funding was established to support new and ongoing research and produce and distribute annual reports and recommendations prepared by the council. In addition, the funds are used for Web site development and upgrades, as well as, creating an infrastructure to assist states in developing women's business advisory councils, summits and interstate communications network.

SALARIES AND EXPENSES

For FY 2006, the SBA has requested $307,159,000. This represents a decrease of $19,100,000 from the FY 2005 budget request, and $15,076,000 less than the FY 2005 appropriation. This request is fully $196,630,000 less than the FY 2004 request. Expenses include travel for agency employees, as well as rents and other agency overhead items. In addition, the SBA has removed a number of programs from line item requests – such as Advocacy, 7(j) technical assistance, among other programs – into the salaries and expenses categories. There is concern that the agency is cutting itself very thin – so much so that its ability to assist its small business clients will be severely adversely impacted.

COMPETITIVE SOURCING

The SBA has requested $3 million to proceed with competitive sourcing initiatives. First, the SBA plans to move ahead with four pending outsourcing projects. The agency plans to compete the following tasks currently performed by SBA employees: SBIC examinations; 8(a) program application processing; loss verification activities deployed nationwide in the aftermath of a disaster in the Office of Disaster Assistance; compliance review activities related to the Office of Civil Rights Compliance and the Office of Equal Employment Opportunity. These tasks are currently performed by 70 full time equivalent SBA employees.

Further, the SBA intends to enter into competition for disaster loan servicing and liquidation activities and nationwide legal activities in support of Disaster Loan Servicing Activities in the Office of the General Counsel. The SBA anticipates that these functions are being performed by 100 full time equivalent SBA employees.

There is concern that the SBA is focusing on reducing its staff because its scored poorly in the Office of Management and Budget's review of government agency outsourcing efforts. Decisions on competitive sourcing and the hardship this would cause to agency employees and morale should be based on how these initiatives would increase the ability of small businesses to succeed, rather than administration evaluations.

INFORMATION TECHNOLOGY INFRASTRUCTURE AND E-GOVERNMENT

The SBA has requested $6.8 million in funding for SBA's internal information technology (IT) infrastructure as well as electronic government initiatives. The SBA is requesting $1.4 million for enterprise architecture and record management, $1.1 million for server consolidation, $382,000 for a centralized IT Help Desk; $635,000 for the Business Gateway Project Management Office and eGov operations, $1.1 million for agency-wide e-mail upgrade and archiving, and $2.2 million to modernize Internet and Intranet applications and content. Given that the SBA has been evaluated as poor in IT infrastructure security, it is notable that the agency has not requested funding to address security concerns.

Despite a focus on E-Government initiatives of the administration, and subsequently promoted by the SBA along with substantial sums to upgrade the SBA's IT infrastructure, there are still a number of small businesses that do not have even basic access to the Internet. There is not one initiative proposed by the administration to increase the access of small businesses to technology. Based upon the administration's lack of focus on ensuring that small businesses have affordable Internet access, this budget request is not viewed favorably.

OFFICE OF ADVOCACY AND OFFICE OF NATIONAL OMBUDSMAN

With regard to the proposed elimination of the long-standing line item expenditures for the Office of Advocacy Research and the Office of the National Ombudsman, we strongly disagree with the majority. They suggest it is sufficient to fold these items into a general account if the Committee "work(s) to insure" these two programs (among others) get the support from SBA they deserve. Congress created these line items a decade ago to shield the independent judgment of these special offices from SBA's direct or indirect influence. Advocacy and the National Ombudsman are routinely required to render critical assessments of executive agencies including the SBA. Advocacy has the added duty to collect and analyze data about small businesses and the impact of government on them. Requiring Advocacy to look to SBA to dispense research funds chills their judgment in undertaking projects where the results, though valuable to small business, might run afoul of the administration.

CONCLUSION

With labor force participation at its lowest level since 1988 and wage growth stagnant, the U.S. economy could use the economic contributions of small businesses. Small businesses create nearly 75 percent of net new jobs, often acting as the catalyst for the formation of new industries. The federal government has long had an interest in spurring entrepreneurship, doing so through the programs administered by the SBA. During the last four years, however, the SBA's role has been severely diminished

The administration's FY 2006 budget submission is not supportive of SBA's access to capital programs and, as a result, these programs are unable to meet the evolving credit needs of entrepreneurs. The administration terminates the SBA's largest venture capital program, the agency's sole seed capital initiative, and eliminates funding for the flagship 7(a) program. As a result, SBA will be unable to satisfy entrepreneurs' need for alternative forms of capital.

In its submission, the administration also eliminates several program critical to low-income, urban, and rural communities economic development. By terminating PRIME, SBIR FAST, SBIR Rural Outreach, and the Microloan program, aspiring small business owners will be left without the opportunities and resources to succeed. Making matters worse is that the administration requests insufficient funding for the programs that will likely shoulder increased demand, including the Small Business Development Centers and the Women's Business Centers.

The administration's FY 2006 budget submission for SBA represents the near culmination of the administration's plan to dismantle the SBA. Without an adequate budget, SBA is left with no other alternative but to reduce its staffing levels, eliminate innovative initiatives, and under fund other programs. If SBA's programs were fully funded and supported by the administration, the agency would be able to spur the growth and the job creation that our economy needs.

Sincerely,

NYDIA M. VELÁZQUEZ
Ranking Democratic Member